

BACKGROUND PAPER
February 5, 2003

Implementing the
Millennium Challenge Account

Background

This Background Paper sets forth the Administration's vision for implementing the Millennium Challenge Account (MCA). As determined by the President, the MCA will be established as a new government corporation supervised by a Board of Directors composed of Cabinet level officials and led by a Chief Executive Officer nominated by the President and confirmed by the Senate.

The MCA represents a new approach to providing and delivering development assistance. The MCA's country selection process builds on recent development research that emphasizes the role a country's own policies and institutions play in its development.¹ Similarly, the implementation of MCA programs will recognize the need for country ownership, financial oversight, and accountability for results to ensure effective development assistance. These principles will be embodied in MCA contracts between the MCA Corporation and recipient countries.

A Focus on Growth

The goal of the MCA is to reduce poverty by significantly increasing the economic growth trajectory of recipient countries. This requires an emphasis on investments that raise the productive potential of a country's citizens and firms and help integrate its economy into the global product and capital markets. Key areas of focus would include:

- Agricultural development
- Education
- Enterprise and private sector development
- Governance
- Health
- Trade and investment capacity building

¹ See 11/25/02 White House Fact Sheet, *The Millennium Challenge Account*

Genuine Partnerships

The MCA will signal a new relationship between donors and recipients. Implementation will be based on a genuine partnership between the United States and the recipient country. MCA programs will be implemented by non-governmental organizations and the private sector, in addition to public sector agencies, and the MCA will strive to achieve within recipient countries a broad coalition around development investments. The recipient country's MCA program should reflect an open consultative process, integrating official interests with those of the private sector, civil society, and other donor partners, and bringing an inclusive perspective to discussions between the country and the MCA. In formulating the MCA contract, we would assume that the recipient country will take into account its Poverty Reduction Strategy Paper (PRSP) or other development plans.

The recipient country will be responsible for:

- Guaranteeing open private sector and civil society involvement in developing and implementing the MCA contract;
- Managing coordination among the MCA and other donors to maximize development impact and avoid overlapping or duplication of efforts;
- Ensuring an open and unbiased process that would identify the most promising activities to accomplish MCA goals;
- Publicizing the terms of the contract, making it clear that the responsible actors within the country would be held accountable for performance by their constituents as well as the MCA; and
- Monitoring and assessing activities needed to meet MCA contract benchmarks and goals.

The USG will be responsible for:

- Providing technical assistance to help countries establish credible baseline data and to build the capacity to collect data in the future, and to strengthen public expenditure, management and financial accountability;
- Disbursing funds in the most efficient manner to the implementers of MCA activities; and
- Monitoring MCA contract benchmarks and evaluating progress toward MCA goals.

MCA Contracts

Each country would negotiate and sign a contract with the MCA Corporation that would be made public. Like a business plan, the contract would focus on a few key goals and how they would be achieved. Each MCA contract would include the following components:

- A limited number of clear measurable goals;
- A specific time frame within which the goals would be accomplished;
- The specific activities and intermediate steps that would be needed to accomplish these goals;
- Concrete, measurable benchmarks that would be used to assess progress toward the goals;
- Baseline information against which progress can be measured, or a strategy to gather baseline data where it is lacking;
- Specific benchmarks for measuring progress of, and improvement in, budgeting, tracking of expenditures and financial oversight (such as auditing, transparency, etc.);
- Mechanisms for sustaining goals accomplished under the MCA after the contract ends; and
- Conditions under which the contract would be terminated or amended.

Contract Assessment and Approval

Selection as an MCA country alone will not guarantee automatic funding of all aspects of a country's proposed contract. Contract proposals would be evaluated by:

- Sectoral teams composed of USG officials and, where appropriate, outside experts and;
- A country team composed of USG officials and, where appropriate, outside experts.

The MCA will make every effort to help selected countries obtain the technical assistance necessary to ensure that their contract proposals meet the rigorous analytical standards needed both to establish the feasibility of their strategies and to ensure their effective implementation. The MCA Board will exercise final approval.

Monitoring and Evaluation

Monitoring and evaluation to ensure accountability for results will be an integral part of every activity for which MCA funds are used. Monitoring and evaluation will be conducted by the MCA administrative structure and/or by third-party contractors. To facilitate such monitoring, it is critical that no contract be signed unless it includes baseline data from which progress can be measured or, where it is lacking, a clear strategy for gathering such data before contract activities commence. In addition, every contract would specify regular benchmarks for evaluating progress, and suggested corrective actions to be implemented to keep the program on track. All evaluations, as well as the terms of the contract, would be made public in the United States and the host country.

Several kinds of activities will be monitored:

- Financial responsibility/accountability;
- Auditing to ensure that data reported by recipients is accurate and complete;
- Overall budget data to demonstrate clearly that recipient governments are using MCA resources along with their own domestic and other development resources in a complimentary manner aimed at development results and priorities;
- Specific benchmarks for measuring progress toward program goals; and
- Sustained country commitment to MCA selection criteria.

Monitoring should be conducted by:

- Independent contractors with professional auditing expertise and/or the MCA Corporation for financial accountability, data accuracy, country budget allocations, and specific benchmarks; and the
- MCA Board for conformity with selection criteria.

Term and Sustainability

MCA contracts will fund activities for a limited term and will provide for a mid-term review. There can be "incentive clauses" in the contract to stimulate better performance.

All activities initiated under the MCA will have to be sustainable once the contract term ends. Recipients will have to be clear about how the funding for recurrent costs, if needed, would be provided.

Termination

Programs will continue to receive funding, subject to congressional appropriation, under the terms of the country's MCA contract unless they fail to meet the specific conditions for performance specified in the contract. Funding for all or part of the MCA contract could be scaled back or ended for:

- Failing to meet financial standards/accountability; or
- Failing to attain specific benchmarks.

Country participation in the MCA could be terminated for:

- Failing to meet qualifying criteria as indicated by an absolute decline in the policy environment related to ruling justly, investing in people, or promoting economic freedom; or
- Material changes in conditions affecting development prospects (e.g. military coups).